

EAST UNION COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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East Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Mike Rollings	President	2006
Lynn Kruse	Vice President	2007
David Waigand	Board Member	2008
Shannon Harper	Board Member	2008
Kenneth Hagen	Board Member	2006

Board of Education (After September 2006 Election)		
Lynn Kruse	President	2007
Shannon Harper	Vice President	2008
David Waigand	Board Member	2008
Kenneth Hagen	Board Member	2009
Sarah Long	Board Member	2009

School Officials		
Steve Clark	Superintendent	2007
Kay Vaughn	Co-Board Treasurer	2007
Billie Jo Greene	Business Manager, Board Secretary & Co-Board Treasurer	2007
Sue Seitz	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Union Community School District, Afton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Union Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.


In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2008 on our consideration of East Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise East Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Union Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,823,951 in fiscal 2006 to \$4,933,524 in fiscal 2007, while General Fund expenditures increased from \$4,444,817 in fiscal 2006 to \$4,656,784 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$1,154,573 in fiscal 2006 to \$1,431,313 in fiscal 2007, a 23.98% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in regular instructional services.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of East Union Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Union Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Union Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
East Union Community School District Annual Financial Report

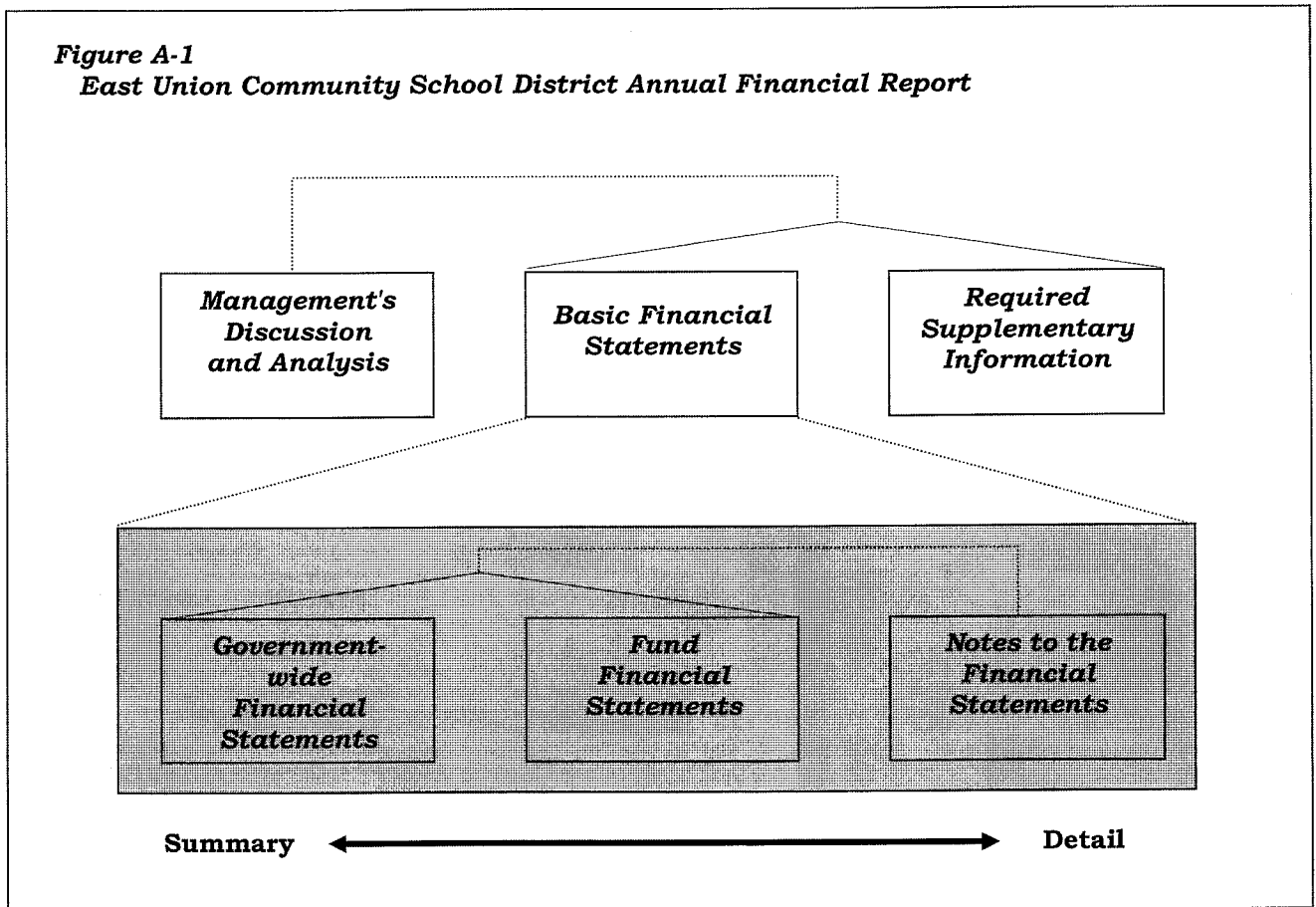


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 and on June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,236,460	4,746,484	19,383	23,806	4,255,843	4,770,290	-10.78%
Capital assets	2,094,449	2,083,180	16,936	19,027	2,111,385	2,102,207	0.44%
Total assets	6,330,909	6,829,664	36,319	42,833	6,367,228	6,872,497	-7.35%
Long-term obligations	1,107,379	1,258,954	0	0	1,107,379	1,258,954	-12.04%
Other liabilities	1,583,648	2,564,576	3,972	2,587	1,587,620	2,567,163	-38.16%
Total liabilities	2,691,027	3,823,530	3,972	2,587	2,694,999	3,826,117	-29.56%
Net assets:							
Invested in capital assets, net of related debt	999,449	1,523,497	16,936	19,027	1,016,385	1,542,524	-34.11%
Restricted	755,833	202,472	0	0	755,833	202,472	273.30%
Unrestricted	1,884,600	1,280,165	15,411	21,219	1,900,011	1,301,384	46.00%
Total net assets	\$ 3,639,882	3,006,134	32,347	40,246	3,672,229	3,046,380	20.54%

The District's combined net assets increased by 20.54% or \$625,849 over the prior year. A portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$553,361 or 273.3% over the prior year. The increase was primarily due to the increase in the fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$598,627 or 46.00%. This was due to the controlled spending in the General Fund.

Figure A-4 shows the changes in the District's net assets for the years ended June 30, 2007, and June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 449,838	453,780	121,536	118,769	571,374	572,549	-0.21%
Operating grants and contributions and restricted interest	792,110	802,840	109,280	106,720	901,390	909,560	-0.90%
Capital grants and contributions and restricted interest	26,949	0	0	0	26,949	0	100.00%
General revenues:							
Property tax	1,793,606	1,819,953	0	0	1,793,606	1,819,953	-1.45%
Local option sales and service tax	402,658	319,684	0	0	402,658	319,684	25.96%
Unrestricted state grants	2,034,826	1,851,469	0	0	2,034,826	1,851,469	9.90%
Unrestricted interest	127,914	96,745	272	305	128,186	97,050	32.08%
Other general revenue	63,576	117,202	0	0	63,576	117,202	-45.76%
Total revenues	5,691,477	5,461,673	231,088	225,794	5,922,565	5,687,467	4.13%
Program expenses:							
Governmental activities:							
Instructional	3,372,165	3,223,627	0	0	3,372,165	3,223,627	4.61%
Support services	1,426,676	1,374,869	0	0	1,426,676	1,374,869	3.77%
Non-instructional programs	0	0	238,987	215,979	238,987	215,979	10.65%
Other expenses	258,888	318,369	0	0	258,888	318,369	-18.68%
Total expenses	5,057,729	4,916,865	238,987	215,979	5,296,716	5,132,844	3.19%
Changes in net assets	633,748	544,808	(7,899)	9,815	625,849	554,623	12.84%
Net assets beginning of year	3,006,134	2,461,326	40,246	30,431	3,046,380	2,491,757	22.26%
Net assets end of year	\$ 3,639,882	3,006,134	32,347	40,246	3,672,229	3,046,380	20.54%

Property tax and unrestricted state grants account for 64.6% of the total revenue. The District's expenses primarily relate to instruction and support services that account for 90.6% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,691,477 and expenses were \$5,057,729.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,372,165	3,223,627	4.61%	2,293,252	2,120,613	8.14%
Support services	1,426,676	1,374,869	3.77%	1,426,676	1,374,869	3.77%
Other expenses	258,888	318,369	-18.68%	68,904	164,763	-58.18%
Totals	\$ 5,057,729	4,916,865	2.86%	3,788,832	3,660,245	3.51%

- The cost financed by users of the District's programs was \$449,838.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$819,059.
- The net cost of governmental activities was financed with \$1,793,606 in local tax, \$402,658 in local option sales and service tax, \$2,034,826 in unrestricted state grants, \$127,914 in interest income and \$63,576 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$231,088 and expenses were \$238,987. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the East Union Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,480,129, above last year's ending fund balances of \$2,019,515. The primary reason for the increase was the increase in the fund balance of the General Fund.

Governmental Fund Highlights

- The District's General Fund balance increased from \$1,154,573 on June 30, 2006 to \$1,431,313 on June 30, 2007. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the tuition and state sources revenue during the year resulted in an increase in total revenues. An increase in instructional and support service expenditures increased the total expenditures for the year. However, revenues still exceeded expenditures ensuring the increase in the District's financial position.
- The Management fund balance increased from \$4,472 in 2006, to \$18,363 in 2007, due to the increase in local tax sources of revenue.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$37,238 to \$47,443, due in part to decrease in transportation support services expenditures.
- The Capital Projects fund balance increased during the current year, from \$377,964 to \$511,479. The Capital Projects fund also includes Capital Projects funds for a track and

playground. An increase in other local and federal sources of revenue increased total revenues for the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$40,246 at June 30, 2006 to \$32,347 at June 30, 2007, representing a decrease of 19.63%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$43,206 less than budgeted revenues, a variance of 0.7%. The most significant variances resulted from the District receiving less in local and state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$2,111,385, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.44% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$164,186.

The original cost of the District's capital assets was \$4,804,290. Governmental funds account for \$4,756,603 with the remainder of \$47,687 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the Land improvements category. The Land improvements totaled \$70,743 at June 30, 2007, compared to \$26,429 reported at June 30, 2006. This increase resulted from the purchase of playground equipment and construction of a walking trail made during the current year.

Figure A-6

	Capital Assets, Net of Depreciation							
	Governmental		Business-type		Total		Total	Change
	Activities		Activities		School District			
	2007	2006	2007	2006	2007	2006		
Land	\$ 14,205	14,205	0	0	14,205	14,205	0.00%	
Construction in progress	33,649	0	0	0	33,649	0	100.00%	
Buildings	1,809,723	1,842,133	0	0	1,809,723	1,842,133	-1.76%	
Land improvements	70,743	26,429	0	0	70,743	26,429	167.67%	
Machinery and equipment	166,129	200,413	16,936	19,027	183,065	219,440	-16.58%	
Total	\$ 2,094,449	2,083,180	16,936	19,027	2,111,385	2,102,207	0.44%	

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$1,107,379 in general obligation bonds, compensated absences and early retirement. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The general obligation bonds, which are being paid from the Capital Project Fund, have a balance of \$1,095,000 as of June 30, 2007. Of this balance, \$165,000 of principal is due next year.

Early retirement has a balance of \$7,536 as of June 30, 2007. This balance is going to be paid from the Management Fund throughout the next year.

The District, at year end, had compensated absences of \$4,843, which are payable from the General Fund.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	\$ 1,095,000	1,250,000	-12.4%
Early retirement	7,536	3,768	100.0%
Compensated absences	4,843	5,186	-6.6%
Total	<u>\$ 1,107,379</u>	<u>1,258,954</u>	<u>-12.0%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which started in fiscal year 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, District Board Secretary/Treasurer, East Union Community School District, 1916 High School Drive, Afton, Iowa, 50830.

BASIC FINANCIAL STATEMENTS

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,429,824	15,018	2,444,842
Receivables:			
Property tax:			
Delinquent	44,461	0	44,461
Succeeding year	1,297,927	0	1,297,927
Income surtax	191,457	0	191,457
Accounts	18,087	0	18,087
Other receivables	39,969	0	39,969
Due from other governments	208,757	0	208,757
Inventories	0	4,365	4,365
Accrued interest			
ISCAP(Note 5)	5,978	0	5,978
Capital assets, net of accumulated depreciation(Note 6)	2,094,449	16,936	2,111,385
TOTAL ASSETS	6,330,909	36,319	6,367,228
LIABILITIES			
Accounts payable	227,744	654	228,398
Salaries and benefits payable	31,859	142	32,001
Interest payable	18,774	0	18,774
Deferred revenue:			
Succeeding year property tax	1,297,927	0	1,297,927
Other	7,344	3,176	10,520
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	165,000	0	165,000
Early retirement	7,536	0	7,536
Compensated absences	4,843	0	4,843
Portion due after one year:			
General obligation bonds	930,000	0	930,000
TOTAL LIABILITIES	2,691,027	3,972	2,694,999
NET ASSETS			
Invested in capital assets, net of related debt	999,449	16,936	1,016,385
Restricted for:			
Talented and gifted	53,234	0	53,234
Market factor	3,795	0	3,795
Capital projects	511,479	0	511,479
Physical plant and equipment levy	47,443	0	47,443
Management levy	18,363	0	18,363
Other special revenue purposes	121,519	0	121,519
Unrestricted	1,884,600	15,411	1,900,011
TOTAL NET ASSETS	\$ 3,639,882	32,347	3,672,229

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,999,019	64,103	602,067	0	(1,332,849)	0	(1,332,849)
Special instruction	639,149	0	27,008	0	(612,141)	0	(612,141)
Other instruction	733,997	385,735	0	0	(348,262)	0	(348,262)
	<u>3,372,165</u>	<u>449,838</u>	<u>629,075</u>	<u>0</u>	<u>(2,293,252)</u>	<u>0</u>	<u>(2,293,252)</u>
Support services:							
Student services	74,063	0	0	0	(74,063)	0	(74,063)
Instructional staff services	220,171	0	0	0	(220,171)	0	(220,171)
Administration services	440,998	0	0	0	(440,998)	0	(440,998)
Operation and maintenance of plant services	371,400	0	0	0	(371,400)	0	(371,400)
Transportation services	320,044	0	0	0	(320,044)	0	(320,044)
	<u>1,426,676</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,426,676)</u>	<u>0</u>	<u>(1,426,676)</u>
Other expenditures:							
Facilities acquisitions	(25,519)	0	0	26,949	52,468	0	52,468
Long-term debt interest	39,048	0	0	0	(39,048)	0	(39,048)
AEA flowthrough	163,035	0	163,035	0	0	0	0
Depreciation(unallocated)*	82,324	0	0	0	(82,324)	0	(82,324)
	<u>258,888</u>	<u>0</u>	<u>163,035</u>	<u>26,949</u>	<u>(68,904)</u>	<u>0</u>	<u>(68,904)</u>
Total governmental activities	5,057,729	449,838	792,110	26,949	(3,788,832)	0	(3,788,832)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	238,987	121,536	109,280	0	0	(8,171)	(8,171)
Total business-type activities	<u>238,987</u>	<u>121,536</u>	<u>109,280</u>	<u>0</u>	<u>0</u>	<u>(8,171)</u>	<u>(8,171)</u>
Total	<u>\$ 5,296,716</u>	<u>571,374</u>	<u>901,390</u>	<u>26,949</u>	<u>(3,788,832)</u>	<u>(8,171)</u>	<u>(3,797,003)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,758,995	0	1,758,995
Capital outlay					34,611	0	34,611
Local option sales and service tax					402,658	0	402,658
Unrestricted state grants					2,034,826	0	2,034,826
Unrestricted investment earnings					127,914	272	128,186
Other general revenues					63,576	0	63,576
Total general revenues					<u>4,422,580</u>	<u>272</u>	<u>4,422,852</u>
Changes in net assets					633,748	(7,899)	625,849
Net assets beginning of year					3,006,134	40,246	3,046,380
Net assets end of year					<u>\$ 3,639,882</u>	<u>32,347</u>	<u>3,672,229</u>

* This amount excludes the depreciation that is included in the direct expense
of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 1,496,630	474,236	539,135	2,510,001
Receivables:				
Property tax				
Delinquent	41,131	0	3,330	44,461
Succeeding year	1,168,085	0	129,842	1,297,927
Income surtax	191,457	0	0	191,457
Accounts	12,645	4,119	1,323	18,087
Accrued interest				
ISCAP (Note 5)	5,978	0	0	5,978
Interfund	0	0	491	491
Other	39,969	0	0	39,969
Due from other governments	128,604	80,153	0	208,757
TOTAL ASSETS	\$ 3,084,499	558,508	674,121	4,317,128
LIABILITIES AND FUND BALANCES				
Liabilities:				
Excess of warrants issued over bank balance	\$ 54,856	25,321	0	80,177
Interfund payable	491	0	0	491
Accounts payable	199,094	21,708	6,942	227,744
Salaries and benefits payable	31,859	0	0	31,859
Deferred revenue:				
Succeeding year property tax	1,168,085	0	129,842	1,297,927
Income surtax	191,457	0	0	191,457
Other	7,344	0	0	7,344
Total liabilities	1,653,186	47,029	136,784	1,836,999
Fund balances:				
Reserved for:				
Debt service	0	0	350,012	350,012
Talented and gifted	53,234	0	0	53,234
Market factor	3,795	0	0	3,795
Unreserved:				
General	1,374,284	0	0	1,374,284
Capital projects	0	511,479	0	511,479
Physical plant and equipment levy	0	0	47,443	47,443
Management levy	0	0	18,363	18,363
Other special revenue	0	0	121,519	121,519
Total fund balances	1,431,313	511,479	537,337	2,480,129
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,084,499	558,508	674,121	4,317,128

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 2,480,129
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	2,094,449
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(18,774)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	191,457
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,107,379)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 3,639,882</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,669,568	0	116,538	1,786,106
LOSST	0	402,658	0	402,658
Tuition	64,103	0	0	64,103
Other	372,917	34,449	169,859	577,225
State sources	2,497,099	0	0	2,497,099
Federal sources	329,837	26,949	0	356,786
Total revenues	4,933,524	464,056	286,397	5,683,977
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,921,417	0	35,636	1,957,053
Special instruction	636,887	0	0	636,887
Other instruction	586,172	0	147,825	733,997
	3,144,476	0	183,461	3,327,937
Support services:				
Student services	57,108	0	15,071	72,179
Instructional staff services	213,212	0	0	213,212
Administration services	435,934	0	0	435,934
Operation and maintenance of plant services	353,818	0	17,802	371,620
Transportation services	289,201	0	0	289,201
	1,349,273	0	32,873	1,382,146
Other expenditures:				
Facilities acquisitions	0	127,993	25,414	153,407
Long-term debt:				
Principal	0	0	155,000	155,000
Interest	0	0	41,838	41,838
AEA flowthrough	163,035	0	0	163,035
	163,035	127,993	222,252	513,280
Total expenditures	4,656,784	127,993	438,586	5,223,363
Excess(deficiency) of revenues over(under) expenditures	276,740	336,063	(152,189)	460,614
Other financing sources(uses):				
Transfers in	0	21,672	202,548	224,220
Transfers out	0	(224,220)	0	(224,220)
Total other financing sources(uses)	0	(202,548)	202,548	0
Net change in fund balances	276,740	133,515	50,359	460,614
Fund balance beginning of year	1,154,573	377,964	486,978	2,019,515
Fund balance end of year	\$ 1,431,313	511,479	537,337	2,480,129

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 460,614

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year are as follows:

Capital expenditures	\$ 180,926	
Depreciation expense	(162,095)	
Loss on disposal of capital assets	<u>(7,562)</u>	11,269

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	155,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	2,790
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	7,500
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ (3,768)	
Compensated absences	<u>343</u>	<u>(3,425)</u>

Changes in net assets of governmental activities (page 14)	<u>\$ 633,748</u>
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SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 15,018
Inventories	4,365
Capital assets, net of accumulated depreciation (Note 6)	<u>16,936</u>
TOTAL ASSETS	<u>36,319</u>
LIABILITIES	
Accounts payable	654
Salaries and benefits payable	142
Deferred revenues	<u>3,176</u>
TOTAL LIABILITIES	<u>3,972</u>
NET ASSETS	
Invested in capital assets	16,936
Unrestricted	<u>15,411</u>
TOTAL NET ASSETS	<u>\$ 32,347</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 121,536
TOTAL OPERATING REVENUES	<u>121,536</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	116,050
Benefits	16,542
Supplies	103,569
Other	735
Depreciation	2,091
TOTAL OPERATING EXPENSES	<u>238,987</u>
OPERATING LOSS	<u>(117,451)</u>
NON-OPERATING REVENUES:	
Interest	272
State sources	2,922
Federal sources	106,358
TOTAL NON-OPERATING REVENUES	<u>109,552</u>
Change in net assets	(7,899)
Net assets at beginning of year	<u>40,246</u>
Net assets end of year	<u>\$ 32,347</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 121,519
Cash received from miscellaneous operating activities	606
Cash payments to employees for services	(132,450)
Cash payments to suppliers for goods or services	(93,139)
Net cash used in operating activities	<u>(103,464)</u>
Cash flows from non-capital financing activities:	
State grants received	2,922
Federal grants received	94,683
Net cash provided by non-capital financing activities	<u>97,605</u>
Cash flows from investing activities:	
Interest on investments	272
Net cash provided by investing activities	<u>272</u>
Net decrease in cash and cash equivalents	(5,587)
Cash and cash equivalents at beginning of year	<u>20,605</u>
Cash and cash equivalents at end of year	<u>\$ 15,018</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (117,451)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	11,675
Depreciation	2,091
Increase in inventories	(1,164)
Increase in accounts payable	654
Increase in salaries and benefits payable	142
Increase in deferred revenue	589
Net cash used in operating activities	<u>\$ (103,464)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 15,018</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$11,675.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The East Union Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Afton, Iowa, and the predominate agricultural territory in Union, Madison, Ringgold, and Clarke Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, East Union Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Union Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Union, Madison, Ringgold, and Clarke County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, no disbursements exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,974,336

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Student Activity	General	\$ 491

General owes the Special Revenue: Student Activity for overpayments. These should be paid back in fiscal year 2008.

(4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 202,548
Track Capital Projects	Capital Projects	21,672
Total		\$ 224,220

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 0	5,978	0	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2007.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,205	0	0	14,205
Construction in progress	0	33,649	0	33,649
Total capital assets not being depreciated	14,205	33,649	0	47,854
Capital assets being depreciated:				
Buildings	3,601,342	42,695	0	3,644,037
Land improvements	111,865	53,533	20,000	145,398
Machinery and equipment	930,494	51,049	62,229	919,314
Total capital assets being depreciated	4,643,701	147,277	82,229	4,708,749
Less accumulated depreciation for:				
Buildings	1,759,209	75,105	0	1,834,314
Land improvements	85,436	7,219	18,000	74,655
Machinery and equipment	730,081	79,771	56,667	753,185
Total accumulated depreciation	2,574,726	162,095	74,667	2,662,154
Total capital assets being depreciated, net	2,068,975	(14,818)	7,562	2,046,595
Governmental activities capital assets, net	\$ 2,083,180	18,831	7,562	2,094,449
Business-type activities:				
Machinery and equipment	\$ 47,687	0	0	47,687
Less accumulated depreciation	28,660	2,091	0	30,751
Business-type activities capital assets, net	\$ 19,027	(2,091)	0	16,936

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 40,082
Special	2,262
Support services:	
Instructional staff services	6,959
Transportation service	30,468
	<u>79,771</u>
Unallocated depreciation	<u>82,324</u>
Total governmental activities depreciation expense	<u>\$ 162,095</u>
Business-type activities:	
Food services	<u>\$ 2,091</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,250,000	0	155,000	1,095,000	165,000
Early retirement	3,768	15,072	11,304	7,536	7,536
Compensated absences	5,186	4,843	5,186	4,843	4,843
Total	<u>\$ 1,258,954</u>	<u>19,915</u>	<u>171,490</u>	<u>1,107,379</u>	<u>177,379</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue January 1, 2004		
		Principal	Interest	Total
2008	3.60 %	\$ 165,000	34,578	199,578
2009	2.90	170,000	29,143	199,143
2010	3.15	180,000	23,842	203,842
2011	3.40	185,000	17,862	202,862
2012	3.65	195,000	11,158	206,158
2013	3.80	200,000	3,800	203,800
Total		<u>\$ 1,095,000</u>	<u>120,383</u>	<u>1,215,383</u>

Early Retirement

The District offers a voluntary early retirement plan, for one year only, to its licensed employees. Eligible employees must be between the ages of fifty-five and sixty-three, and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education, with only three being approved each year. Eligible employee early retirement incentives consists of a cash payment of \$14,000, less applicable withholdings.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$155,134, \$148,180, and \$145,339, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$163,035 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EAST UNION COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 2,830,092	121,808	2,951,900	2,700,420	2,700,420	251,480
State sources	2,497,099	2,922	2,500,021	2,606,439	2,606,439	(106,418)
Federal sources	356,786	106,358	463,144	565,000	565,000	(101,856)
Total revenues	5,683,977	231,088	5,915,065	5,871,859	5,871,859	43,206
Expenditures:						
Instruction	3,327,937	0	3,327,937	3,828,802	3,828,802	500,865
Support services	1,382,146	0	1,382,146	1,947,848	1,947,848	565,702
Non-instructional programs	0	238,987	238,987	278,470	278,470	39,483
Other expenditures	513,280	0	513,280	1,178,320	1,178,320	665,040
Total expenditures	5,223,363	238,987	5,462,350	7,233,440	7,233,440	1,771,090
Excess(deficiency) of revenues over(under) expenditures	460,614	(7,899)	452,715	(1,361,581)	(1,361,581)	1,814,296
Other financing sources, net	0	0	0	3,500	3,500	3,500
Excess(deficiency) of revenues and other financing sources over(under) expenditures	460,614	(7,899)	452,715	(1,358,081)	(1,358,081)	1,817,796
Balance beginning of year	2,019,515	40,246	2,059,761	1,358,081	1,358,081	701,680
Balance end of year	\$ 2,480,129	32,347	2,512,476	0	0	2,519,476

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

EAST UNION COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Physical Plant & Manage- ment	Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	
ASSETS						
Cash and pooled investments	\$ 16,919	46,454	125,000	188,373	350,762	539,135
Receivables:						
Property tax:						
Current year delinquent	2,341	989	0	3,330	0	3,330
Succeeding year	95,000	34,842	0	129,842	0	129,842
Interfund	0	0	491	491	0	491
Accounts	0	0	1,323	1,323	0	1,323
TOTAL ASSETS	\$ 114,260	82,285	126,814	323,359	350,762	674,121
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 897	0	5,295	6,192	750	6,942
Deferred revenue:						
Succeeding year property tax	95,000	34,842	0	129,842	0	129,842
	95,897	34,842	5,295	136,034	750	136,784
Fund equity:						
Fund balances:						
Reserved:						
Debt service	0	0	0	0	350,012	350,012
Unreserved:						
Undesignated	18,363	47,443	121,519	187,325	0	187,325
Total fund balances	18,363	47,443	121,519	187,325	350,012	537,337
TOTAL LIABILITIES AND FUND EQUITY	\$ 114,260	82,285	126,814	317,167	350,012	674,121

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Physical Plant & Manage- ment	Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 81,927	34,611	0	116,538	0	116,538
Other	471	1,008	157,995	159,474	10,385	169,859
TOTAL REVENUES	82,398	35,619	157,995	276,012	10,385	286,397
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	35,636	0	0	35,636	0	35,636
Other instruction	0	0	147,825	147,825	0	147,825
	35,636	0	147,825	183,461	0	183,461
Support services:						
Student support services	15,071	0	0	15,071	0	15,071
Operation and maintainance of plant services	17,802	0	0	17,802	0	17,802
	32,873	0	0	32,873	0	32,873
Other expenditures:						
Facilities acquisitions	0	25,414	0	25,414	0	25,414
Long-term debt:						
Principal	0	0	0	0	155,000	155,000
Interest and fiscal charges	0	0	0	0	41,838	41,838
	0	25,414	0	25,414	196,838	222,252
TOTAL EXPENDITURES	68,509	25,414	147,825	226,677	196,838	438,586
Excess (deficiency) of revenues over (under) expenditures	13,889	10,205	10,170	34,264	(186,453)	(152,189)
Other financing sources:						
Transfer in	0	0	0	0	202,548	202,548
Total other financing sources	0	0	0	0	202,548	202,548
Excess of revenues and other financing sources over expenditures	13,889	10,205	10,170	34,264	16,095	50,359
Fund balance beginning of year	4,474	37,238	111,349	153,061	333,917	486,978
Fund balance end of year	\$ 18,363	47,443	121,519	187,325	350,012	537,337

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2007

	Capital Projects	Playground Capital Projects Levy	Track Capital Projects Levy	Total Capital Projects Funds
ASSETS				
Cash and pooled investments	\$ 455,639	0	18,597	474,236
Receivables:				
Accounts	0	0	4,119	4,119
Due from other governments	53,204	26,949	0	80,153
TOTAL ASSETS	\$ 508,843	26,949	22,716	558,508
LIABILITIES AND FUND EQUITY				
Liabilities:				
Excess of warrants over bank balance	\$ 0	25,321	0	25,321
Accounts payable	17,441	148	4,119	21,708
	17,441	25,469	4,119	47,029
Fund equity:				
Fund balances:				
Unreserved:				
Capital projects	491,402	1,480	18,597	511,479
Total fund balances	491,402	1,480	18,597	511,479
TOTAL LIABILITIES AND FUND EQUITY	\$ 508,843	26,949	22,716	558,508

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2007

	Capital Projects	Playground Capital Projects Levy	Track Capital Projects Levy	Total Capital Projects Funds
REVENUES:				
Local sources:				
LOSST	\$ 402,658	0	0	402,658
Other	17,952	0	16,497	34,449
State sources	0	0	0	0
Federal sources	0	26,949	0	26,949
TOTAL REVENUES	420,610	26,949	16,497	464,056
EXPENDITURES:				
Other expenditures:				
Facilities acquisitions	79,224	27,097	21,672	127,993
TOTAL EXPENDITURES	79,224	27,097	21,672	127,993
Excess (deficiency) of revenues over (under) expenditures	341,386	(148)	(5,175)	336,063
Other financing sources(uses):				
Transfer in	0	0	21,672	21,672
Transfer out	(224,220)	0	0	(224,220)
Total other financing sources(uses)	(224,220)	0	21,672	(202,548)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	117,166	(148)	16,497	133,515
Fund balance beginning of year	374,236	1,628	2,100	377,964
Fund balance end of year	\$ 491,402	1,480	18,597	511,479

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Class of 2009	\$ 233	715	180	768
Class of 2010	0	590	2	588
Class of 2007	5,754	16,311	22,065	0
Class of 2008	1,293	20,314	11,669	9,938
Concessions	1,650	200	68	1,782
Drama	3,881	3,023	2,408	4,496
FFA	9,328	11,229	11,528	9,029
FCCLA	3,088	3,365	3,737	2,716
Instrumental music	6,055	4,324	6,065	4,314
Now account interest	0	45	45	0
National honor society	137	0	53	84
PTO	24	8,429	6,984	1,469
Science club	1,590	798	581	1,807
Spanish club	1,289	0	0	1,289
Student council	1,254	10,643	10,490	1,407
Vocal music	16,198	16,322	14,056	18,464
Vocational agriculture	175	0	0	175
2007 yearbook	0	10,398	5,512	4,886
2008 yearbook	3,542	35	3,577	0
General athletics	33,970	32,124	31,747	34,347
MS student council	1,807	460	727	1,540
Drill team	78	0	78	0
MS boys basketball	360	115	(120)	595
MS football	1,081	185	443	823
MS baseball	130	115	(30)	275
MS boys track	458	115	(98)	671
MS wrestling	618	115	258	475
MS girls basketball	1,013	115	(120)	1,248
MS volleyball	284	307	351	240
MS softball	467	115	(72)	654
MS girls track	413	295	64	644
HS boys basketball	688	450	(219)	1,357
HS football	1,867	3,011	2,240	2,638
HS baseball	536	739	509	766
HS boys track	320	845	483	682
HS golf	1,125	50	24	1,151
HS wrestling	855	685	674	866
HS girls basketball	2,080	450	1,079	1,451
HS volleyball	199	2,942	2,384	757
HS softball	1,463	1,451	1,528	1,386
HS girls track	1,244	1,975	1,945	1,274
HS girls golf	1,054	50	(59)	1,163
Cross country	533	0	533	0
Weight room	1,107	430	429	1,108
Cheerleaders	2,108	4,115	4,027	2,196
Total	\$ 111,349	157,995	147,825	121,519

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	2,188,764	2,138,771	1,904,633	1,802,600
Tuition		64,103	60,448	45,634	62,243
Other		577,225	530,708	461,352	426,612
State sources		2,497,099	2,258,608	2,189,660	2,134,366
Federal sources		356,786	395,753	660,075	593,982
Total		\$ 5,683,977	5,384,288	5,261,354	5,019,803
Expenditures:					
Instruction:					
Regular instruction	\$	1,957,053	1,861,322	1,694,655	1,660,307
Special instruction		636,887	552,802	453,198	1,111,379
Other instruction		733,997	793,753	1,063,047	304,524
Support services:					
Student services		72,179	68,461	66,868	102,410
Instructional staff services		213,212	163,014	99,174	84,091
Administration services		435,934	431,359	386,224	419,226
Operation and maintenance of plant services		371,620	355,242	331,774	321,013
Transportation services		289,201	314,779	245,561	260,617
Other expenditures:					
Facilities acquisitions		153,407	206,641	480,552	979,330
Long-term debt:					
Principal		155,000	145,000	105,000	0
Interest		41,838	47,238	51,738	560
AEA flow-through		163,035	153,606	153,203	155,177
Total		\$ 5,223,363	5,093,217	5,130,994	5,398,634

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
East Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Union Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 4, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Union Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of East Union Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Union Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects East Union Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of East Union Community School District's financial statements that is more than inconsequential will not be prevented or detected by East Union Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by East Union Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Union Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

East Union Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit East Union Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Union Community School District and other parties to whom East Union Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 4, 2008

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have contacted the bank and have begun receiving both the fronts and backs of all checks.

Conclusion - Response accepted.

I-C-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of

the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Donations from Box Tops for Education were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

Response - We have moved the PTO account to the General Fund.

Conclusion - Response accepted.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.